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AUTHOR(S):

Shiomi, Saburo

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THE STATE DISBURSEMENT OF COMPULSORY EDUCATION EXPENDITURE AND THE TRANSFER OF THE LAND TAX TO THE LOCAL TREASURIES

1. THE PRESENT STATE OF LOCAL FINANCE

In studying the finances of this country, it is necessary that attention should not be confined to State finance but that it should be extended to the finances of prefectures, cities, towns, villages, riparian guilds and engineering guilds as well. According to expert opinion¹⁾, in the budgets for the fiscal year 1925-1926, the total national expenditure, inclusive of State and local finances, amounted to ¥4,600,000,000, of which ¥3,400,000,000 represented the State expenditure and the remaining ¥1,200,000,000 the local expenditure. That is to say, local finances were responsible for about one-fourth of the total expenditure which our financial life entailed.

The above figures refer to the fiscal year 1925-1926, and it may be asked what were the figures for other fiscal years. The following Table I shows the course of increase in the local expenditure and in the general accounts of State expenditure.

¹⁾ "The Relation Between State Expenditure and Local Expenditure" by the Bureau of Accountancy of the Department of Finance.

Table I

Comparison of State expenditure with local expenditure¹⁾

| Fiscal year ²⁾ | The amount (in ¥1,000) | | Index number (%) | | General average of the index number of the whole-sale prices of commodities (%) | Index number compiled with due reference to the index number of commodity prices | |
|---------------------------|-------------------------|-----------|-------------------------|-------|---|--|-------|
| | State (General account) | Local | State (General account) | Local | | State (General account) | Local |
| 1914 | 648,420 | 327,629 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1915 | 583,269 | 317,872 | 89.9 | 97.0 | 101.6 | 88.5 | 95.4 |
| 1916 | 590,795 | 334,606 | 91.1 | 102.1 | 122.9 | 74.1 | 83.1 |
| 1917 | 735,024 | 387,802 | 113.3 | 118.4 | 154.7 | 73.2 | 76.5 |
| 1918 | 1,017,035 | 504,688 | 156.8 | 154.0 | 202.6 | 77.4 | 76.0 |
| 1919 | 1,172,328 | 662,578 | 180.8 | 202.2 | 247.8 | 72.9 | 81.6 |
| 1920 | 1,359,978 | 962,872 | 209.7 | 293.9 | 272.8 | 76.9 | 107.7 |
| 1921 | 1,489,855 | 1,092,530 | 229.7 | 333.5 | 210.8 | 109.0 | 158.2 |
| 1922 | 1,429,689 | 1,309,129 | 220.5 | 399.6 | 206.0 | 107.0 | 194.0 |
| 1923 | 1,521,050 | 1,275,107 | 234.6 | 389.2 | 209.5 | 112.0 | 185.8 |
| 1924 | 1,625,024 | 1,327,691 | 250.6 | 405.2 | 217.3 | 115.3 | 186.5 |
| 1925 (Budget) | 1,580,462 | 1,375,880 | 243.7 | 419.9 | 212.2 | 114.8 | 197.9 |
| 1926 (Budget) | 1,666,774 | 1,519,133 | 257.0 | 463.7 | 188.2 | 136.5 | 246.4 |
| 1927 (Budget) | 1,758,969 | | 271.3 | | 178.6 | 151.9 | |

Taking the expenditure for the fiscal year 1914-1915 as 100, the State expenditure expanded to 143.7 and 157 respectively in the fiscal years 1925-1926 and 1926-1927, while the local expenditure increased to 319.9 and 363.7 respectively in the same fiscal years. Due allowance must, however, be made for the fact that fluctuations in the prices of commodities were particularly violent in the above-mentioned interval.

¹⁾ "The Outlines of Local Finance for the Fiscal Year 1926-1927" page 2.

²⁾ The figures of expenditure are those of fiscal years and the index number of prices is that of calendar years.

The fact nevertheless remains that as compared with the pre-war days, the State expenditure for the fiscal years given above showed an increase of 14.8 and 36.5 per cent. respectively and the local expenditure an increase of 97.9 and 146.4 per cent. respectively. Thus, it is obvious that the local expenditure witnessed a huger increase than the general account of the State expenditure.

One must not, however, hastily conclude from the greater increase in the local expenditure that local finances are in a more distressed condition than State finances.

In the first place, it must be remembered that the State expenditure as shown in Table I refers to the general account only, the special accounts numbering over 30 being omitted. Such being the case, the figure appearing in the above table does not represent the total State expenditure. According to a certain expert, the total State expenditure for the fiscal year 1914-1915 was ¥1,000,000,000, and as the total State expenditure budgeted for the fiscal year 1926-1927 amounted to ¥3,400,000,000, the increase was nearly four times as large. As compared with the increase which occurred in the local expenditure, it was smaller, for the local expenditure expanded fivefold in the same interval.

Secondly, due note must be taken of items of increased expenditure. These items must be divided into two kinds. Items such as the pay bill for teachers, which in no way help to increase the State revenue, belong to one kind, while items such as gas and electric works, which partake of the nature of capital expenditure in that they operate to augment the State revenue, belong to the other. In items falling under the latter category are responsible for the increase of the State expenditure, an increase of burden does not necessarily follow. If, on the other hand, the increase is due to items of the former kind, it results in putting pressure on the State's finances.

In studying the burden of local taxation, care must be taken to deduct from the prefectural taxes the grants to *gun* (county) (in the fiscal years up to 1922-1923) and those

to the cities, towns and villages, so as to avoid double reckoning. Table II shows a comparison between the burden of the national taxes and that of the local taxes:—

Table II
Comparison of the burden of national taxes with
that of local taxes¹⁾

| Fiscal year | National taxes | | | Local taxes | | |
|---------------|----------------------|--------------------------------|----------------------|----------------------|--------------------------------|----------------------|
| | Total (in ¥1,000) | Per house- hold (yen) | Per head (yen) | Total (in ¥1,000) | Per house- hold (yen) | Per head (yen) |
| 1914 | 343,708 | 33.56 | 5.90 | 181,238 | 18.16 | 3.24 |
| 1915 | 312,745 | 30.25 | 5.36 | 178,481 | 17.42 | 3.06 |
| 1916 | 348,673 | 32.71 | 5.87 | 188,018 | 18.17 | 3.22 |
| 1917 | 430,604 | 42.07 | 7.41 | 215,297 | 21.03 | 3.70 |
| 1918 | 519,293 | 49.64 | 8.98 | 268,644 | 25.68 | 4.64 |
| 1919 | 672,386 | 63.59 | 11.47 | 384,050 | 36.29 | 6.55 |
| 1920 | 696,257 | 65.79 | 11.90 | 533,347 | 47.52 | 9.53 |
| 1921 | 785,852 | 70.02 | 14.04 | 596,292 | 53.13 | 10.65 |
| 1922 | 896,404 | 79.87 | 16.01 | 653,278 | 58.21 | 11.67 |
| 1923 | 787,203 | 70.14 | 14.06 | 602,023 | 53.64 | 10.75 |
| 1924 | 887,238 | 79.06 | 15.85 | 620,656 | 55.30 | 11.09 |
| 1925 (Budget) | 795,237 | 70.86 | 14.21 | 587,110 | 52.31 | 10.49 |
| 1926 (Budget) | 812,620 | 67.71 | 13.60 | 627,174 | 52.25 | 10.49 |

In the pre-war days, the revenue from the national taxes amounted to ¥340,000,000 and that from the local taxes to ¥180,000,000, but these figures grew to ¥810,000,000 and ¥620,000,000 respectively in the fiscal year 1916-1927. Thus the disparity in amount between the two was considerably narrowed down. As, moreover, the national tax revenue includes the Customs duties amounting to something like ¥100,000,000, the *sake* tax amounting to ¥20,000,000, and various kinds of domestic excise taxes, the national tax revenue falls short of the local tax revenue, if the income

¹⁾ Outlines of Local Finance for the Fiscal Year 1926-1927," pages 2-3.

from these indirect taxes be deducted from the total figure.¹³ From this point of view, it may be said that the burden of local taxes is heavier than that of national taxes. The increasing local taxes are by no means drawn from rich financial sources. In fact, in order to balance the budgets, surtaxes are imposed in excess of the legal limit, and heavy special taxes such as the household rate and various kinds of miscellaneous imposts are levied, besides some improper devices being resorted to on the pretext of collections contributions or the cost of statute labour, etc. Such being the case, it is obvious that some measures must be taken to improve local finances.

Various plans may be suggested for such relief. One is to curtail the functions of the local autonomous bodies, and another is to reduce the expenditure, while leaving their functions intact. The transfer of the land tax to the local treasuries and the disbursement of the compulsory education expenditure out of the national treasury, both of which are now prominently before the public, are neither the one nor the other. They are plans which, while leaving the functions of local autonomous bodies intact and also recognising their present methods of defraying expenditure, aim at reducing the burden of local people by calling in the aid of the national treasury. The former is an attempt to reduce local taxes by securing the transfer of the land tax—one of the national taxes—to cities, towns, and villages, so as to increase the local revenue, while the latter seeks to attain the object of reducing local taxes by lessening the local expenditure through the transfer of the part of the cost of compulsory education from the cities, towns, and villages to the State. In both plans, an appeal is made to State finances for the relief of local finances. They offer a remarkable contrast to such measures as are designed to improve local finances by the efforts of the local autonomous bodies themselves. In

¹³ "The 52nd Statistical Annual Report" by the Bureau of Taxation. pages 612-615.

the present article, I propose to deal with the transfer of the land tax to the local treasuries and the disbursement of the compulsory education expenditure out of the national treasury, such as are described above.

2. THE TRANSFER OF THE LAND TAX TO LOCAL TREASURIES

The mere mention of the transfer of the land tax to local treasuries does not make the whole meaning at all clear, as many methods of transfer are conceivable. It may, for instance, be asked whether the whole of the land tax is to be transferred or only a part; whether it is to the prefectures or to the cities, towns, and villages that such a transfer is to be made, or whether the land tax is to be transferred as it is, or whether it is to be revised before it is transferred. In this article, I will discuss the transfer as explained by both General Baron Tanaka, the Premier, and Mr. Mitsuchi, Minister of Finance, in the 54th session of the Diet, in their speeches.¹⁾ Two prominent features of the transfer of the land tax under discussion are that the whole of the land tax is to be transferred from the national coffer to the treasuries of cities, towns, and villages, and that the assessment is to be made on the basis of the rental value of the land, instead of on the basis of the assessed value of the land as is the case at present. I propose to examine the question in its two phases, namely, the land tax as a local levy and the land tax as assessed on the basis of the rental value of the land.

(a). The land tax as a local levy.

The following Table III, which has been compiled on the basis of the statistics published lately by the Government, indicates the revenue from the prefectural taxes and that from the municipal, town, and village taxes :—

¹⁾ The Stenographical Record of the Proceedings of the House of Representatives in the 54th Session of the Diet.

Table III

The revenue from the local taxes in the budgets for the
fiscal year 1926-1927¹⁾

| | | Prefec- tural taxes. In ¥1,000 | | | Munici- pal levies, In ¥1,000 | Town and Villages Levies, In ¥1,000 |
|-------------------------------------|---|--|---------------------------------------|--|--|--|
| Surtaxes on national taxes | Land tax | 75,343 | Surtaxes on national taxes | Land tax | 5,035 | 39,337 |
| | Business tax | 26,595 | | Business tax | 28,430 | 12,850 |
| | Income tax | 5,792 | | Income tax | 14,123 | 8,344 |
| | Mining tax | 392 | | Mining tax | 20 | 315 |
| | Exchange business tax | 153 | | Exchange business tax | 214 | 0.5 |
| Special taxes | Household rate (<i>Kosuwari</i>) | 48,308 | Surtaxes on prefec- tural taxes | Household rate (<i>Kosuwari</i>) | 9,787 | 155,474 |
| | House tax (<i>Kaokuzei</i>) | 9,629 | | House tax (<i>Kaokuzei</i>) | 16,989 | 8,538 |
| | Business tax | 9,114 | | Business tax | 3,177 | 5,538 |
| | Miscellaneous duties | 55,352 | | Miscellaneous duties | 18,774 | 31,751 |
| | Grants from cities, towns, and villages | 9,156 | Special taxes | Acreage rate | 304 | 4,578 |
| | | | | House rate (<i>Kobetsuwari</i>) | 94 | 111 |
| | | | | House levy (<i>Kaokuwari</i>) | 8,467 | 137 |
| | | | | Tax on the transfer of real estate | 2,640 | 0.5 |
| | | | | Income tax | 120 | 8 |
| | | | | Others | 7,368 | 631 |
| | | | Levy paid in lieu of Statute labour | | | 1,108 |
| Total | | 239,748 | Total | | 115,548 | 268,728 |

As will be seen from the above table, the local taxes consist of surtaxes—surtaxes collected in excess of the legal limit—the household tax and excessively heavy special taxes.

In the fiscal year 1926-1927, the revenue from the land tax amounted to ¥65,000,000, while the the surtax on it,

¹⁾ "Outlines of Local Finances for the Fiscal Year 1926-1927," pages 29-45.

collected by the prefectures, amounted to ¥75,000,000 and that collected by the cities, towns, and villages amounted to ¥44,000,000, making a total of ¥120,000,000. If to this is added to *tanbetsuwari* (acreage rate), which is of a similar nature to the land tax, the figure may be expanded to ¥125,000,000. Thus, about twice the sum of the land revenue was collected as local imposts. It must be obvious from the above that the local imposts—the prefectural imposts in particular—constitute the major part of the land levies.

This is one proof of the importance of the land tax in local finance. What position is, then, occupied by the land tax in State finance? Setting apart the finances in the early years of *Meiji*, a comparison in the position occupied by the land tax at the time of the Sino-Japanese and the Russo-Japanese Wars with that occupied by it at the present time, together with a comparison with other taxes, is shown in the following Table IV:—

Table IV

Comparison of the land tax revenue with the revenue from other taxes (in ¥1,000)

| Fiscal year | Land tax | Sake tax | Customs duties | Income tax | Business tax. (Business profit tax) | Total |
|-----------------------|----------|----------|----------------|------------|--|---------|
| 1894-1895 | 39,291 | 16,130 | 5,755 | 1,353 | | 71,286 |
| 1895-1896 | 38,692 | 17,748 | 6,785 | 1,497 | | 74,697 |
| 1904-1905 | 60,939 | 58,285 | 23,159 | 14,369 | 12,601 | 194,362 |
| 1905-1906 | 80,473 | 59,099 | 36,757 | 23,218 | 18,784 | 251,275 |
| 1918-1919 | 73,527 | 120,635 | 68,937 | 122,817 | 34,375 | 519,292 |
| 1919-1920 | 73,754 | 137,626 | 81,135 | 193,148 | 44,075 | 672,385 |
| 1920-1921 | 73,944 | 163,896 | 69,371 | 190,344 | 62,092 | 696,257 |
| 1921-1922 | 74,130 | 176,085 | 100,941 | 200,938 | 68,453 | 785,851 |
| 1922-1923 | 74,325 | 222,585 | 108,044 | 229,132 | 77,132 | 896,403 |
| 1923-1924 | 73,134 | 221,497 | 89,309 | 163,846 | 55,837 | 787,203 |
| 1924-1925 | 71,969 | 221,577 | 119,638 | 209,992 | 61,943 | 887,237 |
| 1925-1926 | 74,614 | 212,638 | 111,160 | 234,971 | 65,791 | 894,808 |
| 1926-1927 (Budget) | 65,091 | 207,261 | 105,381 | 207,075 | 59,477 | 812,620 |
| 1927-1928 (Budget) | 66,944 | 238,630 | 127,413 | 224,159 | 50,961 | 883,257 |

At the time of the Sino-Japanese War, the land tax accounted for about 50 per cent. of the total revenue, and at the time of the Russo-Japanese War it represented 30 per cent. of the total tax revenue. Constituting, as it did, the largest source of revenue in those days, it did much to help the country's war-time finance. During the last ten years, however, its position in the national taxation system has been considerably lowered, for it now constitutes only 10 per cent. or so of the total tax revenue. The revenue accruing from the land tax is smaller at present than that from the *sake* tax, the income tax, the Customs duties or even that from the sugar excise. It stands fifth on the list, or sixth, if the Monopoly profit is taken into account. That the land tax is gradually losing importance in the national taxation system can clearly be seen from Table IV.

The fact that it is helping local finances much more than State finances is partly responsible for the growth of the present argument for the transfer of the land tax to the local treasuries.

We now come to the question of whether it shall be transferred to the prefectures or whether it shall be transferred to cities, towns, and villages.

The question of the transfer of the land tax, on which much discussion is now going on, is that the whole of the land tax shall be transferred from the national coffer to the treasuries of the cities, towns, and villages and that the prefectures shall be allowed to levy a surtax on it. As Seligman terms it, the segregation of source, not the division of yield, is intended in favour of the cities, towns, and villages in regard to a national tax in the shape of the land tax.¹⁾ If applied to the Budget for the fiscal year 1926-1927, the proposal takes away from the national treasury the land tax amounting to ¥65,000,000, and gives it to the coffers of the cities, towns, and villages, in lieu of, or in addition to, the surtax on the land tax collected at present by these

¹⁾ Seligman; "Essays in Taxation," p. 365.

local governments to the amount of ¥44,000,000, thereby enhancing the local revenue by ¥21,000,000 to ¥65,000,000. As for the prefectures, they can collect the same amount of surtax on it as they have been collecting on the national land tax. This fact can be viewed from two angles.

As a matter of principle, surtaxes have hitherto been levied on taxes accruing to the treasuries of higher administrative bodies, but under the new proposal, a departure is to be made from this rule, for higher bodies are to levy a surtax on the tax which belongs to bodies of lower grade. Inasmuch, moreover, as the prefectures are to collect the surtax aggregating ¥75,000,000 on the principal tax, which is expected to bring in the revenue of either ¥65,000,000 or ¥109,000,000, the surtax remains very heavy as compared with the principal tax.

Again, although the prefectural coffers may not be affected by the transfer, the national treasury stands to lose one permanent source of revenue, from which the sum of ¥65,000,000 accrued in the fiscal year 1926-1927. On the other hand, the ordinary revenue of the cities, towns, and villages is to be enhanced by from ¥21,000,000 to ¥65,000,000. How is the changed state of finances resulting from the execution of the transfer to be met, then? As one means of meeting this altered situation, it may be suggested that part of the State functions should be shifted to the cities, towns, and villages. As another, the suggestion may be made that while leaving intact the division of business between the State and the cities, towns, and villages, steps should be taken to make good the deficit caused in the ordinary revenue of the State, on the one hand, and to utilise the increased revenue of the cities, towns, and villages for the reduction of taxes, on the other. As no definite explanation is offered by the advocates of the transfer of the land tax to the local treasuries on this point, however, it is impossible to discuss this phase of the question further.

(b). Assessment of the tax on the basis of the rental value of land.

One of the chief objections to the land tax now imposed is based on the ground that the assessed value of land is widely different from the actual value of the land. The advocates of the transfer, therefore, favour an alteration in the methods of assessment at the same time.

The land tax is now assessed on the basis of the value of land, which was fixed as long ago as 1883. The value of land then fixed remains unaltered, in the main, though some slight revisions have been made since then. With regard to the value of residential land, it was revised in 1910, it is true, but the revision was only a provisional one, as the following restrictions provided in Article 3 of the revised Law governing the value of residential land (Law No. 3 dated March 3rd, 1910) indicate:—

1.—As a matter of principle, the revised value of residential land shall be fixed at ten times the rental value.

2.—Exceptions shall, however, be made

a. of the revised value of residential land in cities, the maximum of which shall be 18 times the value of land now in force, and

b. of the revised value of residential land in the towns and villages, the maximum of which shall be 720 per cent. of the land-value now prevailing.

In short, as both the rice-paddy tax and the tax on residential land are assessed on the basis of the value of land fixed many years ago, they are rendered more and more improper, as social conditions change. This is particularly so in the case of big cities and their suburbs, and the anomaly has been accentuated by the industrial revolution which the world war has brought about.

In 1918, the question of altering the standards of assessment came up, and three suggestions were made. One was to assess the land tax on the value of the land fixed with special reference to its yield, as was done in the early years of *Meiji*. Another was to base the assessment on the market value of the land. The other was to base it on the rental value of the land. Of these three proposals, the last-mention-

ed was eventually adopted. The investigation was consequently made of the rental value of farm land, selected for the purpose throughout the country, at a cost of ¥930,000 as an enterprise spread over three years from 1918. In 1926, the Law for the Investigation of the Rental Value of Land was promulgated (Law No. 45 dated March 31st, 1926), and in 1927, the Rental Land Value Investigation Commission Law was also promulgated (Law No. 16 dated March 30th, 1927). Under these two laws, the investigation has been made at a total cost of ¥10,000,000, which was defrayed in two fiscal years, viz. 1926-1927 and 1927-1928. In the Budget for the fiscal year 1927-1928, the sum of ¥4,439,996 was appropriated as the expenditure on this head under item 11 of Section 2 of the Extraordinary Expenditure of the Department of Finance.¹⁾

The nature of the investigation made of the rental value of land, which has only recently been completed, can be gathered from the principal Articles of the Law for the Investigation of the Rental Value of Land, which are cited below :—

Article 2.—The investigation of rental value shall be made concerning land on which the land tax is levied on April 1st, 1926.

Article 3.—The rental value of land shall be the standard rental value of each class of land in each district, where similar circumstances prevail.

By the standard rental value is meant the sum of money which the landlord gets as rent on his land, which is typical of the land in the district concerned, provided it is rented out on condition that he bears the public levies, and the maintenance cost in general and in particular.

Article 4.—The district and the standard rental value mentioned in the foregoing Article shall be determined by the Government after consulting the Rental Land Value

¹⁾ Book for reference on the general account of the Department of Finance.

Investigation Commission in accordance with the rules separately provided.

As explanatory of Article 4, the following Articles of the Rental Land Value Investigation Commission Law may be noted :—

Article 1.—The Director of the Tax Office shall draw up a written report on the results of the investigation made and submit it to the Rental Land Value Investigation Commission so that it may be able to determine the district and the standard rental value of land mentioned in Article 3 of the said Law.

Article 3.—The Rental Land Value Investigation Commission shall consist of the members who are elected by land-tax payers in the cities, towns, and villages lying within the district for which it is appointed.

Seeing that advocates of the transfer of the land tax to the local treasuries are in favour of the adoption of the rental value of land, it would appear only proper that they should utilise the results of the investigations which have recently been completed by the tax offices, but they have openly expressed themselves opposed to the Law for the Investigation of the Rental Value of Land and the Law governing the constitution of the Rental Land Value Investigation Commission. They give their advocacy of the decentralisation of power as the reason for their opposition.

Advocates of the transfer of the land tax support the definition of the rental value of land given in Article 3, Paragraph 2 of the Law for the Investigation of the Rental Value of Land that it shall be "the sum of money the landlord gets as rent on the land which he rents out on condition that he bears the public levies, repairs cost and other expenses necessary for the upkeep of the land. The only point of disagreement is that they insist upon the work of investigation being undertaken by the prefectures, numbering about fifty, independently, whereas the investigations that have been completed have been conducted by the Department of Finance systematically through the seven Taxa-

tion Superintendence Bureaus, under whose direction 350 tax offices worked. The question, then, is which method of investigation is better?

Under the Law for the Investigation of the Rental Value of Land, the investigation was systematically carried out throughout the country, under the direction of the Department of Finance, with due regard to the maintenance of equilibrium between different bistricts, and with this method of investigation the advocate of the transfer of the land tax are dissatisfied. They insist upon the inquiries being made by each prefecture independently, and declare that it is in accord with the principle of the decentralisation of power. The merits of this contention must be judged, apart from the question of centralisation or decentralisation of power. The whole issue hinges upon the consideration which of the two powers—the Directors of the Tax Offices or the local Governors—can conduct the investigation under discussion more efficiently and fairly.

Setting apart the question of the transfer of the land tax, it is of urgent necessity that the rental value of land should replace the assessed value of land as the basis of assessment, and accordingly special attention ought to be directed to this question. Since considerable efforts have already been made and large sums of money have been spent on the investigation of the rental value of land, it is only proper that the fruits of these investigations should be fully utilised. It would never do to allow the over-enthusiasm about the decentralisation of power to prejudice fair judgment as to the relative merits of the methods of assessment.

3. THE DEFRAYAL OF THE COMPULSORY EDUCATION EXPENDITURE OUT OF THE NATIONAL TREASURY

The General Budget for the fiscal year 1927-1928 shows that the State subsidy to the salary bill for elementary school teachers (¥75,000,000) constitutes the major part of the common education expenditure (¥83,534,800), which is given

under Section 5 of the Ordinary Expenditure of the Department of Education.¹⁾ Advocates of the increase of the State subsidy insist that this amount of contribution out of the national treasury should be increased until the whole salary bill for all ordinary primary school (*jinjo shogakko*) teachers can be paid out of it. This opinion is drawing as much attention as the transfer of the land tax to the local treasuries.

I propose to study the question in two sections, viz. the expansion of local education expenditure, and the meaning of the defrayal of the education expenditure out of the national coffer.

(a) The expansion of the local education expenditure.

Some publicists complain that the Government is indifferent to education, saying that in the General Budget of this country the Education Department expenditure constitutes less than 10 per cent. of the entire State expenditure. (In the Budget for the fiscal year 1927-1928, in which the total State expenditure is put at ¥1,760,000,000, the Education Department expenditure totalled ¥140,000,000, that is, ¥120,000,000 in the ordinary expenditure and ¥20,000,000 in the extraordinary expenditure). But this complaint is wide of the mark. If one stops to examine local finances, one can easily understand how heavily the education expenditure weighs on those same finances. The following Table V shows the details:—

From Table V it will be seen that the local education expenditure has formed about one-fourth of the total local expenditure since the pre-war days up to the present time. Especially in the finances of towns and of villages, the ratio of the education expenditure has expanded rapidly until it has come of late to constitute one half of the expenditure of town and of village.

It is said that what strikes foreigners who inspect

¹⁾ Book for reference on the general account of the Department of Education.

Table V

Comparison of local education expenditure with the total local expenditure (in ¥1,000)^D

| Fiscal year | Prefectures | | Cities | | Towns and villages | | Local expenditure | |
|--------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|
| | Education expenditure | Total of annual expenditure | Education expenditure | Total of annual expenditure | Education expenditure | Total of annual expenditure | Education expenditure | Total of annual expenditure |
| 1914-1915 | 15,854 | 102,255 | 11,607 | 82,981 | 47,115 | 124,852 | 76,847 | 327,629 |
| 1915-1916 | 16,300 | 101,614 | 11,594 | 76,637 | 47,863 | 122,735 | 78,001 | 317,872 |
| 1916-1917 | 16,684 | 97,070 | 12,086 | 90,620 | 50,830 | 130,103 | 81,917 | 334,606 |
| 1917-1918 | 18,887 | 104,353 | 14,862 | 118,090 | 57,573 | 144,105 | 93,547 | 387,802 |
| 1918-1919 | 23,348 | 141,497 | 22,140 | 150,347 | 77,501 | 188,360 | 126,118 | 504,688 |
| 1919-1920 | 30,057 | 195,704 | 33,506 | 178,365 | 113,607 | 257,396 | 181,689 | 662,578 |
| 1920-1921 | 47,371 | 285,250 | 48,171 | 272,484 | 158,809 | 357,878 | 263,261 | 962,872 |
| 1921-1922 | 59,299 | 323,847 | 56,727 | 324,225 | 171,946 | 386,910 | 300,317 | 1,092,530 |
| 1922-1923 | 75,428 | 374,081 | 62,675 | 387,572 | 193,316 | 455,399 | 351,045 | 1,309,129 |
| 1923-1924 | 86,616 | 407,184 | 70,763 | 420,549 | 201,754 | 426,019 | 359,134 | 1,275,107 |
| 1924-1925 | 92,041 | 414,660 | 71,851 | 452,153 | 212,372 | 439,285 | 376,265 | 1,327,691 |
| 1925-1926 (Budget) | 82,857 | 341,572 | 81,760 | 610,373 | 194,235 | 403,999 | 358,853 | 1,375,880 |
| 1926-1927 (Budget) | 95,741 | 379,129 | 85,243 | 671,907 | 210,586 | 442,920 | 391,571 | 1,519,133 |

^D Outlines of Local Finance for the Fiscal Year 1926-1927 pp. 6-17.

Japanese rural life more strongly than anything else is that the primary school buildings are disproportionately fine, consisting the impoverished state of the villagers. Primary school education advances the more, the more money is put into it, but the burden on the towns and villages increases at the same time. Worse still, many of the children who have been educated at these schools go to big cities to reside, instead of following the plough in the villages which bore the expense of their education. Thus, the farming villages bear a heavy expenditure for the education of those who go elsewhere to live, to all intents and purposes, only to add to the impoverishment of their finances. The rise in the prices of commodities, which followed the world war led many talented primary school teachers to seek more lucrative positions in the business world. This phenomenon, coupled with the increasing burden of the education expenditure on the people in the provinces, suggested to many minds the necessity of increasing the State subsidy toward primary school education expenditure with the double object of lessening the burden on the local finances and of securing the services of better teachers for primary schools by means of better pay. The Law governing the defrayal of part of the compulsory education expenditure out of the national treasury was enacted in such circumstances.¹⁾ The necessity of the State bearing part of the compulsory education expenditure at once to relieve local finances and to increase the pay of primary school teachers is recognised on all hands, but there is a division of opinion as to whether the State should bear the entire pay bill for the ordinary primary school teachers, or only one-half the amount.

(b). The increase of the State's share in the education expenditure.

¹⁾ In consequence of the promulgation of the law governing the defrayal of the compulsory education expenditure out of the national treasury, the average amount of the salaries of primary school teachers has increased and the household rate and surtaxes have been reduced.

In Section 5 of the ordinary expenditure of the Department of Education, the subsidy to primary school education expenditure and the salary bill for the teachers serving in the army are given, besides the fund which the State contributes towards the pay bill for the primary school teachers. These defrayals are made in accordance with the Law governing the State subsidy toward the education expenditure of the primary schools run by cities, towns, and villages (Law No. 63 dated March 16th, 1900) and the Law governing the State's disbursements for the primary school teachers serving in the army (Law No. 17 dated March 31st, 1921) respectively. In respect of the amount of money involved, however, the defrayal out of the State treasury towards the compulsory education expenditure is much larger than the sums involved in these disbursements, as can be seen from the following Table VI:—

Table VI

Comparison of the funds defrayed out of the national treasury in support of primary school education (in ¥1,000)¹⁾

| Fiscal year | Compulsory education fund | Subsidy to cities, towns, and villages | Subsidy toward the salaries for teachers serving in the army | Total |
|-------------|---------------------------|--|--|--------|
| 1921-1922 | 10,000 | 2,000 | 330 | 12,330 |
| 1922-1923 | 10,000 | 2,000 | 593 | 12,593 |
| 1923-1924 | 40,000 | 2,000 | 506 | 42,506 |
| 1924-1925 | 40,000 | 2,000 | 1,086 | 43,086 |
| 1925-1926 | 40,000 | 2,000 | 225 | 42,225 |
| 1926-1927 | 70,000 | 2,000 | 612 | 72,612 |
| 1927-1928 | 75,000 | 2,000 | 683 | 77,683 |

In order to make clear the nature of the State's defrayal towards the compulsory education expenditure, it is necessary

¹⁾ "The Education Department Review" dated August 21, 1926.

to study the Law governing this disbursement (Law No. 20, dated March 28th, 1923). The Law provides:—

Article 1.—The national treasury shall bear part of the expenditure on account of the salaries for the ordinary primary schools run by cities, towns, and villages.

Article 2.—The amount to be disbursed under the foregoing Article shall not fall short of ¥75,000,000 in each fiscal year.

Article 3.—Two-thirds of the amount of money defrayed out of the national treasury, exclusive of the grants mentioned in Article 5, shall be given to cities, towns, and villages, and one-third of the amount, exclusive of the grants mentioned in Article 4, shall be given to towns and villages. In each case, one-half of the amount shall be allotted pro rata according to the number of teachers in the ordinary primary school run by cities, towns, and villages on June last of the previous year; while the other half shall be distributed according to the number of the pupils attending such schools on July 1st of the previous year.

Article 4.—The Government can increase, in accordance with the stipulations of an Imperial Ordinance, the grants for those cities, whose financial and other circumstances it thinks deserve the step, with the proviso that the increase does not exceed 50 per cent. of the grants allotted to them under the stipulation of the foregoing Article.

Article 5.—The Government can increase, in accordance with the stipulations of an Imperial Ordinance, the grants for those towns and villages, whose financial and other circumstances it thinks deserve the step, within the limit of one-tenth of the whole defrayal out of the national treasury.

As indicated in Article 1, part of the expenditure on account of the salaries of teachers of ordinary primary schools run by cities, towns, and villages is defrayed out of the national treasury. An important point to be noted in this connection is the percentage of the State payment to the total amount of the salaries of ordinary primary school teachers. The following Table VII shows this percentage:—

Table VII
**Comparison of the State compulsory education fund and
the pay bill¹⁾**

| Fiscal year | Amount of salaries of ordinary pri- mary school teachers. (in ¥1,000) | State fund. (in ¥1,000) | Percentage of State fund to the pay bill |
|-------------------------|---|----------------------------|--|
| 1918-1919 | 43,248 | 10,000 | 23 |
| 1919-1920 | 47,107 | 10,000 | 21 |
| 1920-1921 | 92,285 | 10,000 | 11 |
| 1921-1922 | 100,446 | 10,000 | 10 |
| 1922-1923 | 105,133 | 10,000 | 10 |
| 1923-1924 | 116,350 | 40,000 | 34 |
| 1924-1925 | 121,619 | 40,000 | 33 |
| 1925-1926 ²⁾ | 125,574 | 40,000 | 32 |
| 1926-1927 | 130,251 | 70,000 | 54 |
| 1927-1928 | 135,978 | 75,000 | 55 |

The pay bill for ordinary primary school teachers ought to increase with the increase of the population and the rise in the prices of commodities. The percentage, however, fell from 20 to 10 in the fiscal year 1922-1923 because the State's disbursement remained fixed at ¥10,000,000 from the fiscal year 1918-1919 to that year. As a remedial measure, the amount was increased to ¥40,000,000 in the fiscal year 1923-1924, to ¥70,000,000 in the fiscal year 1926-1927 and to ¥75,000,000 in the fiscal year 1927-1928. As a general rule, the money defrayed out of the national treasury is to be distributed among cities, towns, and villages in proportion to the number of teachers at the ordinary primary schools and the number of children attending these schools, as mentioned in Article 3, but the provisions are

¹⁾ "Outlines of the Budget for the Fiscal Year 1927-1928," pp. 74-75.

²⁾ The pay bill for ordinary primary school teachers for the fiscal year 1927-1928 has been worked out on the basis of the average rate of increase during the preceding five fiscal years.

made for the increase of the percentage of allotment in favour of cities in financial difficulties (Article 4) and of towns and villages in similar circumstances (Article 5). Table VIII Shows how the fund was apportioned in the past.

Table VIII

Apportionment of the State fund contributed toward the compulsory education expenditure (in ¥1,000)¹⁾

| Fiscal year | Under Article 3 of the law | | | Special grants under Art. 4 | Special grants under Art. 5 | Total |
|-------------|----------------------------|--------------------|--------|-----------------------------|-----------------------------|--------|
| | Cities | Towns and Villages | Total | | | |
| 1918-1919 | | | 9,000 | | 1,000 | 10,000 |
| 1919-1920 | | | 9,000 | | 1,000 | 10,000 |
| 1920-1921 | | | 9,000 | | 1,000 | 10,000 |
| 1921-1922 | | | 9,000 | | 1,000 | 10,000 |
| 1922-1923 | 1,324 | 7,675 | 9,000 | | 1,000 | 10,000 |
| 1923-1924 | 3,503 | 32,263 | 35,767 | 233 | 4,000 | 40,000 |
| 1924-1925 | 3,636 | 32,121 | 35,758 | 242 | 4,000 | 40,000 |
| 1925-1926 | 3,782 | 31,967 | 35,750 | 250 | 4,000 | 40,000 |

Taking the example of the fiscal year 1925-1926, the fund is to be apportioned as follows:—

1.—Of the total fund of ¥40,000,000, the sum of ¥4,000,000 (a sum not exceeding one-tenth of the total) to be set aside for those towns and villages in financial straits (Article 5).

2.—Out of one-third of the remaining ¥36,000,000, viz. ¥12,000,000, the sum of ¥250,000 to be set aside for those cities in financial straits (Article 4).

3.—Two-thirds of the remaining ¥36,000,000, viz. ¥24,000,000, to be given cities, towns, and villages, while the sum of ¥11,750,000 or one-third minus the special grants

¹⁾ "The Education Department Review" dated August 21st, 1926.

provided in Article 4 to be given to towns and villages. The allotment to be made in proportion to the number of teachers and of pupils (Article 3).

As will be seen from the above-mentioned methods of allotment, which involve procedure of a complex nature, the amounts of the grants differ according to districts. On the whole, towns and villages get more than cities, and the greater the financial difficulties in which they are, the greater is the amount of the grants they get from the State.

According to Table VII, in the Budget for the fiscal year 1927-1928, the national treasury bears the burden of 55 per cent. of the salaries of ordinary primary school teachers, but this represents the average figure. The rate was much higher in the case of poor towns, and villages, while, on the other hand, the rate for rich cities was far lower.

Now, I have explained the nature of the fund defrayed out of the national treasury towards the compulsory education expenditure. The proposal now before the public is that the whole expenditure on account of the salaries of the teachers of the ordinary primary schools run by cities, towns, and villages should be borne by the State. That is to say, it is proposed that the State subsidy to compulsory education, which stands at ¥75,000,000 or 55 per cent. of the total pay bill, should be increased to ¥136,000, or 100 per cent. Two questions arise in connection with this proposal:—

1.—If the burden on the national treasury is to increase by ¥61,000,000, with the corresponding decrease in the burden on the local treasuries, the State has to take either of the two courses of shifting part of the State business to the local autonomous bodies and of finding a new elastic source of revenue of permanent nature for the national treasury.

2.—In bearing the whole cost of the pay bill, two courses are open to the State. One is to pay the whole amount of the salaries to the teachers, and the other is to give to the local autonomous bodies the amount equivalent to the total pay bill so that they may use the money as

they think fit for meeting the educational expenditure. The former course is quite logical, but it means the abandonment of the present methods of apportioning the subsidy money among cities, towns, and villages in proportion to their financial strength. If the latter course is to be pursued, the present methods of apportionment may be retained, but it somewhat modifies the meaning of the State's disbursement of the whole amount of the pay bill.

4. CONCLUSION

I have explained at some length the two proposals aiming at the reform of local finance with the aid of the State—the transfer of the land tax to the local treasuries and the disbursement of the compulsory education expenditure out of the national treasury. These two questions assumed great importance in Japanese politics, so much so that the fifty-fourth session of the Diet was dissolved on these issues on January 21st, 1928. The *Seiyukai*, the Government party, strongly advocates the transfer of the land tax to the local treasuries, while the *Minseito*, the Opposition, stands as stoutly for the cause of the disbursement of the compulsory education expenditure out of the national treasury.

Regardless of the issue of the general election, however, these two problems are not to be taken up in the Diet until the ordinary session which sits in 1929; they were not taken up at the extraordinary session of the Diet which was convened in the latter part of April, 1928. It is noteworthy that notwithstanding the fact that these problems are causing serious discussion in Japanese politics, there is much ambiguity as to the details. When the *Seiyukai* was out of power, it urged that the collection of the land tax, the investigation of the rental value of land and the land registration business should be transferred to cities, towns, and villages, and that the transfer should take place in the fiscal year 1926-1927. Since it stepped into power, however, it has been naming different fiscal years for the transfer. Some *Seiyukai* members sug-

gest that it should take place in the fiscal year 1930-1931 and some others the fiscal year 1931-1932. Thus, the date of transfer has become very obscure. Furthermore, the *Seiyukai's* enthusiasm for the reform plan has been rendered very lukewarm by the party's change of opinion. It now urges that the land registration business should remain in the hands of the tax offices, that the investigation of the rental value of land should be undertaken by the prefectures and that the collection of the land tax only should be transferred to cities, towns and villages. Nor is the *Minseito's* advocacy of the disbursement of the compulsory education expenditure out of the national treasury very definite, for the party qualifies its stand for the theory with the condition "As far as the financial circumstances permit," which it attaches to the State's increased defrayal of the expenditure.

Another point worthy of note is that both proposals aim at effecting the reform of local finances, with the help of the State. Instead of giving serious thought to the question of whether the methods adopted for the defrayal of the local expenditure are proper or whether the present division of functions between the State and local autonomous bodies is fair and reasonable, advocates of these proposals concentrate their attention on the question of how to balance the accounts. It may be admitted that both proposals have something to commend themselves as stopgap measures, but no fundamental solution can be achieved by methods of this kind, which depend on the State for the relief of local finances. The whole problem deserves more statesmanlike and far-sighted treatment. Some publicists attempt to explain away the transfer of the land tax and the State's disbursement of the education expenditure merely on the ground of the decentralisation of power. It is all very well to emphasise the decentralisation of power, but it would be foolish to attach too much importance to it. The argument for the decentralisation of power is welcome as a restraint on the contralisation of power being carried to extremes,

but extreme decentralisation of power, it must be remembered, is as detestable as the opposite extreme centralisation of power. One must not allow oneself to be betwitched by the charming term of decentralisation of power into misdirected efforts to destroy the taxation system and the system of disbursement. As the reform of local finances is held in check both by the argument for the transfer of the land tax and by that for the State's taking on itself the payment of the whole expenditure for education, it is desirable that full investigation and study should be made of State and local finances at the present opportunity so that the best and most lasting methods of financial reform may be elaborated and put into effect.

Lastly, it is worthy of note that financial problems in the shape of the State's disbursement of compulsory education expenditure and the transfer of the land tax to the local treasuries were chosen as the election issue in the first general election under the manhood suffrage system. In the past, the chief topics of discussion in the Diet referred invariably to abstract matters of legal technicalities, and the above-mentioned departure from the beaten track indicates that in the Japanese politics financial issues are gradually acquiring great importance. This fact deserves special attention at the hands of students of Japanese economics.

SABURO SHIOMI